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Review of Investment Performance Reconciliation (7/26/04)	Investment Office	1.3 Audit Services recommends that the Investment Office ensure that all portfolios are reported consistently among various reports, in the proper asset groups, and not switched among asset groupings without explanation and appropriate management approval.	COMPLETE. To ensure reporting consistency, the Investment Office developed a master list of portfolio groupings for the Investment Office and Wilshire to use when preparing CalPERS performance reports.
		2.1 To ensure the completeness and accuracy of the custodian's investment information, we recommend that the Investment Office work with the custodian to certify that its accounting and performance systems reconcile to supporting systems.	COMPLETE. The custodian's platform now provides daily performance returns and a daily comparison of its accounting and performance ending market values. The Investment Office also began a weekly reconciliation of the equity and fixed income investments.
		2.2 We recommend that the Investment Office document the flow of investment information used by the custodian to calculate returns, and used by the Investment Office to prepare the monthly Chief Investment Officer's report. Also, the Investment Office should document its procedures for reconciling information received from the custodian's Accounting and Performance groups.	COMPLETE. The Investment Office now uses trade date accounting to prepare the Chief Investment Officer's report. The custodian provides performance returns and market values to the Investment Office on a trade date methodology. Previously, the Investment Office used settlement date to prepare the CIO report. To calculate settlement date, the Investment Office received payables and receivables from the custodian's accounting system. As of January 2005, industry standards require the use of trade date accounting to calculate performance returns and market values. Additionally, the custodian's platform now provides daily performance returns and a daily comparison of its accounting and performance ending market values. The Investment Office now also reconciles equity and fixed income investments weekly.

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Review of Investment Performance Reconciliation (7/26/04) (continued)	Investment Office	4.1 To provide for adequate oversight, monitoring and critical review of investment performance, we recommend that the Investment Office develop policies that includes such purposes as ensuring comprehensive and uniform performance reporting throughout the system, definition and coordination of participant responsibilities in the calculation and performance reporting process, definition and reliability of data used for computing performance measures, and proper calculation and presentation of performance results per applicable standards.	COMPLETE. The Investment Office and the custodian took several steps to improve the reliability of performance information and uniformity of performance reporting, including establishing reporting composites by asset class, moving to daily valuation and calculation of performance returns, reporting performance on a trade date rather than settlement date basis, and establishment of a position within the Investment Office to provide increased oversight and monitoring of investment performance.
Interagency Agreement with the State Controller's Office (8/4/04)	Self-Funded Health Plans	1.1 Self-Funded Health Plans should ensure that the Interagency Agreement specifically states the types and frequency of reports needed to communicate the results of edits and audits performed.	IN PROGRESS. Self-Funded Health Plans and Audit Services in collaboration with the Controller's Office are in the process of identifying and modifying edits and audits that the Controller's Office can perform as a part of the Interagency Agreement. Upon finalization of the edits and audits, the Agreement can be amended to be more specific.
		1.2 Self-Funded Health Plans should amend the Agreement to include the specific types of edits and audits expected to effectively identify both the fraudulent processing of claims and potential non-compliance issues. Self-Funded Health Plans' staff should conduct more frequent site visits to review the Controller's Office operations.	IN PROGRESS. Self-Funded Health Plans and Audit Services will identify and implement audits and edits that can be used to flag both the fraudulent processing of claims and potential non-compliance issues. The Self-Funded Health Plans and the Controller's Office will meet on a monthly basis to discuss and monitor performance and expectations to effectively identify fraudulent processing of claims. The Self-Funded Plans require additional resources in order to effectively monitor such claims.

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Interagency Agreement with the State Controller's Office (8/4/04) (continued)	Self-Funded Health Plans	1.3 Self-Funded Health Plans should evaluate alternatives to independently validate membership and accuracy prior to approving the claims for payment.	IN PROGRESS. Staff will need to analyze the resources required to meet this recommendation, and its impact on business operations. However, the Self-Funded Health Plan management is looking into several possible options to validate claim payments either with information directly for our third-party administrator or through our data warehouse.
		1.4 Self-Funded Health Plans should amend the Agreement to provide clarity on the purpose and types of edits, criteria for edits, and to establish performance measures to assess effectiveness of services provided.	IN PROGRESS. Self-Funded Health Plans and Audit Services will identify and address the edit issues and performance measures in order to amend the Agreement.
Review of Operational Recovery Planning (8/11/04)	Information Technology Services	1.1 We recommend that CalPERS make efforts to align and coordinate the strategic objectives and functional activities of the Business Continuity process; including infrastructure, tool use and organizational placement.	IN PROGRESS. Technology Services and Support Division have developed procedures requiring all business units to have their technical recovery services approved by the Business Continuity Program. Currently the organizational placement of the Business and Disaster Recovery Unit remains the same.
Health Insurance Portability and Accountability Act (8/12/04)	Employer and Member Health Services	1.1 CalPERS should develop comprehensive policies and procedures to maintain and demonstrate compliance with requirements of HIPAA.	IN PROGRESS. Employer and Member Health Services has identified more than 40 policy topics and has been engaged in ensuring that policy and procedure manuals are in full HIPAA compliance.

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Health Insurance Portability and Accountability Act (8/12/04) (continued)	Employer and Member Health Services	1.4 CalPERS should assign HIPAA related duties to a position that has enterprise wide responsibility and authority to ensure ongoing compliance with HIPAA requirements.	IN PROGRESS. The coordinator responsible for development, implementation and compliance with HIPAA requirements has been reclassified to a Staff Services Manager.
		2.1 CalPERS should ensure that its training program specifically identifies staff that requires training, appropriate training to be provided, and ensure attendance at that training. Training documentation should demonstrate ongoing compliance with HIPAA requirements.	IN PROGRESS. Employer and Member Health Services continues to provide multiple training avenues and maintains training documentation within the HIPAA Administration Unit. The Unit also provides the training documentation for inclusion within the Human Resources training database. The training plan will be incorporated into the HIPAA Compliance Guide.
		3.1 CalPERS should ensure it identifies all business associates and properly executes business associate agreements.	COMPLETE. Employer and Member Health Services has identified all five business associates and has executed the final remaining amendment.
		3.2 CalPERS should finalize the draft business associate agreement.	COMPLETE. Employer and Member Health Services finalized the remaining business associate agreement.
		4.1 CalPERS should develop a continuous and formalized system to identify, update and document personal health information and staff access to the information.	IN PROGRESS. Employer and Member Health Services is developing the HIPAA Compliance Guide that addresses this issue.

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Health Insurance Portability and Accountability Act (8/12/04) (continued)	Employer and Member Health Services	5.1 CalPERS should critically review the Notice of Privacy Practices and revise them to ensure clarity. CalPERS should ensure that statements in the Notice are supported by policy and procedures. CalPERS should communicate how the revised Notice will be provided.	IN PROGRESS. Employer and Member Health Services continues to make revised Notice of Privacy Practices available during the annual open enrollment process.
		5.2 CalPERS should formalize the current process of providing members with the Notice of Privacy Practices to increase assurance that members receive the Notice in accordance with HIPAA requirements.	IN PROGRESS. Employer and Member Health Services is working to develop documentation of the process within the HIPAA Compliance Guide to address this issue.
		5.3 CalPERS should compile and integrate documentation that demonstrates compliance with HIPAA notice requirements.	IN PROGRESS. Employer and Member Health Services is taking measures to document the 2005 enrollment mailing. It is also working to develop documentation of the process within the HIPAA Compliance Guide.
		6.1 CalPERS should develop a summary guide of the implementation and development process.	IN PROGRESS. Employer and Member Health Services is working to include a summary of transaction compliance efforts within the HIPAA Compliance Guide.
Software Management Review (8/12/04)	Information Technology Services	1.1 Information Technology Services should ensure that staff complies with CalPERS' Information Security Practices by maintaining adequate documentation for software installed by CalPERS.	IN PROGRESS. Technology Services and Support Division is in the process of finalizing its software inventory practice, procedures for the inventory of the software, and a software inventory log sheet.

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Software Management Review (8/12/04) (continued)	Information Technology Services	1.2 Information Technology Services should ensure that the software inventory list is complete and current, based on its annual comprehensive inventory of all software installed on computer systems.	IN PROGRESS. Technology Services and Support Division has developed an Annual Comprehensive Inventory of Installed Software practice and is in the process of finalizing the corresponding procedures. Once it has completed the procedures, it will compile a comprehensive inventory of currently installed software.
		1.3 Information Technology Services should conduct a quarterly inventory of software installed on CalPERS personal computers.	IN PROGRESS. Technology Services and Support Division is currently working on identifying the software installed on personal computers, and developing a strategy to identify the installed software on a quarterly basis.
	Operations Support Services	2.1 Operations Support Services should establish written procedures to ensure that all software purchased with CalPERS funds is registered in CalPERS' name.	COMPLETE. Operations Support Services has established written procedures instructing staff to include a standard language on the purchase order that directs the vendor to ensure that all software purchased with CalPERS funds is registered.
	Information Technology Services/ Operations Support Services	3.1 Operations Support Services, with the support of Information Technology Services, should establish complete records of purchased software, including detailed license and expiration information.	IN PROGRESS. Operations Support Services is working on modifying PeopleSoft Financials' Asset Management Module pages so that they can capture all of the necessary information for tracking purposes.

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Software Management Review (8/12/04) (continued)	Information Technology Services	4.1 The Information Systems Architecture Committee should continue its efforts to make sure that only software approved for acquisition is included on Operations Support Services' WeBuy acquisition list.	IN PROGRESS. Innovation Services Division will take the appropriate steps to ensure that the WeBuy software list will consist only of software that has been approved to be used on CalPERS' information technology platforms.
		4.2 Information Technology Services should periodically compare software installed on CalPERS computer systems to software approved by the Information Systems Architecture Committee.	IN PROGRESS. Technology Services and Support Division is currently working on identifying the software installed on personal computers, and then will compare the information to the approved software list that is maintained by the Innovation Services Division.
	Operations Support Services	5.1 Operations Support Services should establish a central repository for license information and agreements.	IN PROGRESS. Operations Support Services Division is working with Technology Services and Support Division staff to obtain all software license information and agreements.
	Information Technology Services	5.2 Information Technology Services should explore the possibility of linking software installation records to software acquisition records to detect unlicensed software.	IN PROGRESS. Technology Services and Support Division is holding meetings with Operations Support Services Division to identify a "primary key" that can be used to link the software installation data to the software acquisition data.
		5.3 Information Technology Services should enhance physical security over the software media to prevent unauthorized access to copyright protected materials.	COMPLETE. Technology Services and Support Division has established a central location, for each team, for all software. This location is locked and all team members have knowledge of the location. There is a master software inventory and check out sheet for each location.

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Software Management Review (8/12/04) (continued)	Information Technology Services	6.1 Information Technology Services should establish written procedures and conduct periodic reviews to ensure that software is actually removed from recycled or salvaged computer storage devices.	IN PROGRESS. Technology Services and Support Division has developed procedures for conducting periodic inspections of recycled or salvaged computer storage devices. Technology Services and Support Division intends to start the quarterly inspection in October 2005.
Employer Records Backfile Quality Monitoring (6/25/04)	Innovation Services Division	3.1 The Project Management Division should ensure that the testing plan for critical risk areas of a project is performed to protect viability and promote fewer project delays.	IN PROGRESS. Innovation Services Division will be incorporating a requirement that all projects have a test plan, and that the plan be adhered to, its project framework.
		3.2 Project Management Division should prepare a documented risk contingency plan designed to expediently address critical issues arising during a project.	COMPLETE. Innovation Services Division has implemented the Enterprise Project Management Framework. This framework includes the requirement that all projects have a risk plan and provides a risk plan template.
		3.3 Project Management Division should adhere to project communication plans. This will facilitate realistic user expectations for the project, and help management develop timely resolutions in times of crisis.	COMPLETE. Innovation Services Division has implemented the Enterprise Project Management Framework. This framework includes the requirement that all projects have a communication plan and provides a communication plan template. All project managers must use this framework, and staff has been trained on how to use the framework.

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Business Solution Workflow Review (7/21/04)	Information Technology Services	1.1 Enterprise Modeling and Management Division should restrict unescorted computer room access privileges to staff that have direct responsibility for ongoing computer operations.	COMPLETE. Enterprise Modeling and Management Division has been disbanded. Information Technology Services Branch has improved their procedures for granting access to the computer room, and will be performing a quarterly review of computer room access to ensure that access is still appropriate.
		1.3 Data Security Administration should ensure that documentation of authorized computer access requests is retained as long as the employee has access. These business records should be quickly retrievable by management.	COMPLETE. The System Access Management (SAM) system was implemented in November 2004. The system provides a means to process and review transactions generated by each access account requestor and to track account fulfillment activities. It allows for the records of each request to be retrieved, based on the employees' last name fairly quickly.
		3.1 Enterprise Modeling and Management Division and Information Technology Services should incorporate Business Solution Workflow into the CalPERS' Disaster Recovery Plan.	COMPLETE. Information Technology Services Branch has incorporated Business Solution Workflow into CalPERS' Disaster Recovery Plan.
		3.2 Enterprise Modeling and Management Division should establish a service level agreement with Business Solution Workflow users and monitor compliance with it.	COMPLETE. Technology Services and Support Division has a standard service level agreement between users and technical staff. Business Solution Workflow users are covered by this standard service level agreement.

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Member Self Services Review (8/31/04)	Customer Contact Center	2.2 The Customer Contact Center should verify member identities before reinstating their accounts, as required by procedures.	COMPLETE. The Customer Contact Center has a quality assurance program in place, that periodically validates that staff verifies the identity of the caller prior to providing assistance over the phone. In addition, staff is periodically reminded of the importance of verifying the identity of the caller prior to providing assistance.
Review of Actuarial and Employer Services and Benefit Services Communication with Public Agencies and Members (11/5/04)	Actuarial and Employer Services	1.1 All SmartDesk inquires and corresponding responses should be logged and completed by all Actuarial and Employer Services staff so that information provided can be tracked and monitored for consistency.	CONCUR. Actuarial and Employer Services will proactively reinforce with staff procedures for documenting incoming inquires and responses in Smartdesk. Managers and supervisors will incorporate review of Smartdesk reports into our ongoing employee performance management practice. In addition, managers and supervisors are reinforcing training to Actuarial and Employer Services program staff.
		1.2 A detailed review of the Employer Contact Center's processes and measures should be initiated to provide consistent, accurate and complete information to public agencies and members.	CONCUR. Actuarial and Employer Services is currently performing a detailed review of the Employer Contact Center's processes and measurers. Standards are now in the process of being published for use by all CalPERS staff.

Unit work is under constant review to reduce errors, improve processes, reduce handoffs and provide quality services to our customers. To achieve this goal, staff are working together for learning and development purposes. We are utilizing the WITNESS Call Monitoring software. |

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Review of Actuarial and Employer Services and Benefit Services Communication with Public Agencies and Members (11/5/04) (continued)	Actuarial and Employer Services	3. For unclear issues, Actuarial and Employer Services should seek clarification through the regulation process, which can be shared with other divisions, rather than through client/attorney privileged legal opinions. CalPERS should establish processes to initiate regulations in order to communicate information that may systematically apply to all public agencies.	CONCUR. Actuarial and Employer Services will review all legal opinions and policies at weekly staff meetings. If these opinions and policies apply to all employers, as opposed to a specific inquiry, circular letters and regulations will be developed to convey the decisions. Legal Office has clarified that legal opinions developed for the Compensation Review Unit can be shared with other divisions within CalPERS. In addition to sharing legal opinions, we will pursue regulations to clarify law.
	Benefit Services	4. CalPERS should establish processes to initiate regulations to effectively and promptly communicate the resolution of unclear membership and compensation issues to all similarly situated public agencies.	CONCUR. Benefit Services has and will issue circular letters that undergo the process to determine whether regulations should be promulgated.
COMET Backbridge-Refresh Process Review (11/29/04)	Benefit Services/ Member Services	2.3 Most data validation errors were not timely investigated and resolved. Benefit Services and Member Services should enhance management oversight to ensure prompt error correction.	IN PROGRESS. Technology Services and Support Division is in the process of decommissioning the backbridge refresh process, therefore making this issue obsolete. The Backbridge Decommissioning Project is expected to be completed by no later than December 2005.

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COMET Backbridge-Refresh Process Review (11/29/04) (continued)	Information Technology Services	5. 1 Information Technology Services should continue its efforts to improve the controls over change documentation.	IN PROGRESS. Technology Services and Support Division is in the process of decommissioning the backbridge refresh process, therefore making this issue obsolete. The Backbridge Decommissioning Project is expected to be completed by no later than December 2005.
Review of Social Security Administration (12/2/04)	Actuarial and Employer Services	1.1 Actuarial and Employer Services should continue to develop and finalize procedures in accordance with Social Security Administration requirements and related publications.	COMPLETE. Actuarial and Employer Services will complete a review of the procedures for Social Security Administration and Medicare coverage requirements by July 2005.
		1.2 Actuarial and Employer Services should require periodic secondary reviews of outgoing correspondence to ensure the information given to other agencies is accurate and consistent.	IN PROGRESS. By July 2005, staff will do peer reviews of all documents sent to other agencies to establish coverage.
		2.1 Actuarial and Employer Services should periodically re-evaluate its labor cost estimates to ensure they reflect the current costs associated with administering their program.	IN PROGRESS. Actuarial and Employer Services currently tracks managers' time. Staff will track their time spent on the Social Security program beginning January 2005. Actuarial and Employer Services will re-evaluate its labor cost estimates at the end of fiscal year 2004-05.
Data Ownership (12/21/04)	Information Security Office	1.1 Information Security Office should follow up with management to ensure that each data asset has a data owner.	IN PROGRESS. The Information Security Office is waiting until the Enterprise-wide Decentralized Access Review's report has been issued and that the Data Owner and Classification Practice and Data Owner Designation form has been updated before contacting management.

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Data Ownership (12/21/04) (Continued)	Information Security Office	1.2 Information Security Office should work with Information Technology Services Division to develop a complete listing of all CalPERS' data assets and follow up with business management to have ownership assigned for all data assets.	IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before working with staff from Information Technology Services Branch to develop a complete listing of all CalPERS' data assets.
		2.1 Information Security Office should work with Information Technology Services Division's Data Administration Unit to establish detailed guidelines and procedures for delineating data ownership of shared corporate data, and review the ownership assignments for compliance with security practice requirements.	IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before working with staff from the Information Technology Services Branch to establish detailed guidelines and procedures.
		2.2 Information Security Office should revise the security practice to require timely notification of ownership changes by management and establish procedures for the updates.	IN PROGRESS. The Information Security Office is currently in the process of updating the Data Owner and Custodian Practice, as well as in the process of establishing procedures for the updates.
		3.1 Information Security Office should review the completed data classification forms for accuracy and completeness.	IN PROGRESS. The Information Security Office will be reviewing the next set of classification forms for accuracy and completeness. The next set of forms will not be requested from the various divisions until the Data Owner and Custodian Practice, the Data Classification Practice, and the Data Owner Designation form have all been updated.

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Data Ownership (12/21/04) (continued)	Information Security Office	3.2 Information Security Office should revise the data classification practice to include the requirement for periodic review of data classifications. Data classifications should be determined based on the business need for data protection, and the business impact of unprotected data.	IN PROGRESS. The Information Security Office is in the process of updating the Data Classification Practice.
		4.1 Information Security Office should include a field in the data owner designation form for identifying the data custodian, and establish security baselines for each class of data.	IN PROGRESS. The Information Security Office is currently in the process of updating the Data Owner and Custodians Practice, the Data Classification Practice, and the Data Owner Designation form.
		5.1 Information Security Office should keep data owners aware of their responsibilities through training or other awareness campaigns.	IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before providing training or other awareness campaigns.
Self Funded Health Plans Cash Flow (1/11/05)	Office of Health Policy and Plan Administration	2.1 The Office of Health Policy and Plan Administration should establish cash budgets for the self-funded health plans. They should perform periodic cash variance analysis.	IN PROGRESS. The Office of Health Policy and Plan Administration will develop staff expertise in this area. Cash flow for self funded plans will be tracked and monitored. A workgroup has been developed to address this issue.

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Self Funded Health Plans Cash Flow (1/11/05) (continued)	Office of Health Policy and Plan Administration / Fiscal Services	3.1 The Office of Health Policy and Plan Administration should develop cash management policies, and communicate them to Fiscal Services and the Investment Office to ensure proper coordination and support in achieving the program objectives.	IN PROGRESS. Office of Health Policy and Plan Administration will develop cash management policies designed to achieve strong financial performance for the self-funded health plans. Fiscal Services will review the new cash management policies.
	Office of Health Policy and Plan Administration/ Investment Office	4.1 Office of Health Policy and Plan Administration management should work with Investment Office to determine whether the current approved Investment Policy supports the program objectives. Any determination to use a different benchmark should be formally adopted as such. Any other policy changes should also be formally approved.	IN PROGRESS. Office of Health Policy and Plan Administration will review and update the Statement of Investment Policy for the Self-Funded Health Care Fund. Once updated, the Office and the Investment Office will ensure the policies are formally approved. The Investment Office will propose a formal revision of the Self-Funded Health Care Fund's policy to the Investment Committee after Health Policy and Plan Administration's determination of the optimal investment policy.
	Investment Office	4.2 Investment Office should ensure that the Health Care Fund performance is reported quarterly to the Investment Committee and provided to Health Policy and Plan Administration management for review.	COMPLETE. The Investment Office reported on the Self-Funded Health Care Fund's performance in the Chief Investment Officer's report presented to the Finance Committee. The Investment Office amended the contract with Wilshire for them to provide a performance report on this fund.

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Self Funded Health Plans Cash Flow (1/11/05) (continued)	Office of Health Policy and Plan Administration / Fiscal Services	5.1 Office of Health Policy and Plan Administration should work with Fiscal Services Division to ensure proper presentation of financial and cash flow information to the Health Benefits Committee. HPPA should include more descriptive titles or ensure terminology used meets standard accounting definitions. Fiscal Services should provide HPPA with proper terminology that meets standard accounting definitions.	COMPLETE. Fiscal Services provided the Office of Health Policy and Plan Administration with a reference tool of general accounting terminology for their use in preparing presentations.
		6.1 Office of Health Policy and Plan Administration should work with Fiscal Services to have each self funded health program product separately identified and accounted for within the Health Care Fund, so they can conduct effective cash flow planning, management, monitoring and control.	IN PROGRESS. Office of Health Policy and Plan Administration will research the feasibility of breaking out financial information by product. If it is determined that the information cannot be retrieved based upon a reasonable adjustment, HPPA agrees to work with Fiscal Services, to come up with an acceptable methodology to breakout the project mix. A workgroup has been developed to address this issue. Fiscal Services will review for reasonableness HPPA's methodology for identifying the separate program products.
	Office of Health Policy and Plan Administration/ Investment Office	6.2 Office of Health Policy and Plan Administration should review the current investment policy to determine whether it adequately addresses program needs and objectives. Any changes to the policy must be coordinated with the Investment Office for presentation to the Board.	IN PROGRESS. Office of Health Policy and Plan Administration will review the current investment policy to determine whether it adequately addresses program needs and objectives. The Investment Office will propose a formal revision of the Self Funded Health Care Fund Policy to the Investment Committee subsequent to Office of Health Policy and Plan Administration management's determination of the optimal investment policy to support their program objectives.

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Actuarial and Employer Services and Benefit Services Processes for Establishing Policies (2/15/05)	Actuarial and Employer Services	1.1 Case specific legal advice should not be used to set policy for all public agencies. Actuarial and Employer Services should establish processes to initiate regulations clarifying areas of the law, which are unclear or subject to interpretation, and communicate this information to all public agencies.	CONCUR. Actuarial and Employer Services will establish a policy to review all legal advice and determine if regulations are necessary based upon the advice, or if it refers to the specific case. If regulations should be promulgated, the process for notifying employers will be identified. Actuarial and Employer Services will also establish a policy to review unclear areas of the law and develop procedures to clarify the law.
		1.2 Actuarial and Employer Services should identify unclear areas of the law and pursue efforts to clarify the law. It should communicate the information that may systematically apply to other public agencies. It should also continue pursuing efforts to clarify the California Government Code 20322 and consider adding regulations in the Government Code to clarify when overtime positions should be enrolled. Further, Actuarial and Employer Services should revise the CalPERS' Procedure Manual to ensure consistency with the Government Code.	CONCUR. Actuarial and Employer Services will establish a policy to review unclear areas of the law and develop procedures to clarify the law. Once clarified, procedures will be developed to communicate the information to all affected employers. In particular, Government Code 20322 will be reviewed and further clarification from Legal Office will be pursued. Once resolved, consistency on the issue will be reflected in the CalPERS' Procedure Manual, regulations and other information sources, such as the CalPERS' website. Government Code 20305 will also be reviewed and policy will be reflected in future revisions of the CalPERS' Procedure Manual to be consistent with the Government Code.

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Actuarial and Employer Services and Benefit Services Processes for Establishing Policies (2/15/05) (continued)	Benefit Services/ Actuarial and Employer Services	2.1 Benefit Services should use legal advice to compose or amend regulations to clarify the definition of a "day" referred to in California Government Code 20965 and should ensure the CalPERS' Procedure Manual is in accordance with the California Government Code.	CONCUR. Actuarial and Employer Services is willing to work with Benefit Services to ensure the CalPERS' Procedure Manual is in accordance with the California Government Code. Benefit Services believes that Circular Letter 450-067 remains the official CalPERS documentation of Benefit Services' position.
	Benefit Services/ Actuarial and Employer Services	2.2 Benefit Services should work with Actuarial and Employer Services to identify a solution to resolve those instances where the Golden Handshake provisions are not complied with.	CONCUR. Actuarial and Employer Services is willing to work with Benefit Services to identify a resolution. Benefit Services believes that the responsibility and scope of authority is limited. It would appear an employer's failure to comply with the staffing reduction provisions of the Golden Handshake sections is more accurately viewed as a violation of the contract between the employer and CalPERS.
	Actuarial and Employer Services	3.3 To have effective internal communication, Actuarial and Employer Services should seek clarification of issues through the regulation process, which can be shared with other divisions, rather than through client/attorney privileged legal advice.	CONCUR. Actuarial and Employer Services will develop a policy to notify other CalPERS divisions to communicate regulations that will be promulgated. Every effort will be made to pursue regulations rather than client/attorney privileged legal advice.

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Actuarial and Employer Services and Benefit Services Processes for Establishing Policies (2/15/05) (continued)	Actuarial and Employer Services	3.2 Actuarial and Employer Services should establish a process so that the Office of Audit Services is made aware of any different policies that affect the audit reports. The Office of Audit Services could then work with Actuarial and Employer Services to resolve the issues.	CONCUR. Actuarial and Employer Services will develop a policy to schedule meetings with the Office of Audit Services when their opinions on audit findings differ from those made by Audit Services' staff.
Reconciliation of Investment Accounts (3/29/05)	Fiscal Services	1.1 The Investment Accounting Unit should continue to develop a standard, repeatable methodology for efficiently transferring accounting data and validating all investment activity received from State Street.	IN PROGRESS. Fiscal Services will continue to evaluate revising the accounting data transfer and validation process. Fiscal Services estimates the evaluation will be completed by the end of fiscal year 2005-06.
		2.1 Investment Accounting Unit should redesign the reconciliation of State Street's accounting records to CalPERS' records, which currently does not provide assurance that all assets, liabilities and capital accounts are recorded accurately in the aggregate.	IN PROGRESS. The task force assigned to the project is currently working on revising the design of the current reconciliation to incorporate the inclusion of total assets, total liabilities and total capital of all portfolios. Fiscal Services estimates this will be completed by December 2005.

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Reconciliation of Investment Accounts (3/29/05) (continued)	Fiscal Services	3.1 To ensure strong internal controls over financial reporting, financial statements should be directly generated from, and supported by, the PeopleSoft general ledger system. All reclassification entries should be approved by a supervisor and posted to the general ledger prior to the production of the financial statements. Line items in financial statements should have specific purposes, and should not be used for consolidating dissimilar transactions. Further, Fiscal Services should avoid using user created spreadsheets to support amounts in the financial statements, and should consider obtaining real estate accounting system similar to the Investment Office's real estate accounting system.	IN PROGRESS. Fiscal Services has taken steps to implement policies that will improve the financial preparation process. Adjustments or reclassifications will be reviewed for support and approved by a supervisor prior to posting to the general ledger. The use of certain line items has been expanded to provide a more accurate description. With respect to evaluating other alternatives for real estate accounting, this will be taken into consideration when a new Administrator II is hired for Investment Accounting. Fiscal Services anticipates having the requirements and system development plans by June 2006.
		4.1 We recommend that Fiscal Services proceed expeditiously towards including all internally and externally managed fixed income and equity portfolios in the Investment Accounting System (PAM). We strongly encourage Fiscal Services to allocate more resources to this effort, since it provides the independent validation of the investment activity recorded on State Street's records.	IN PROGRESS. Fiscal Services has added portfolios in PAM per the schedule submitted to senior management. Additional staff resources are needed to move forward with the production schedule. Fiscal Services also intends to request more resources if necessary to achieve the goals of this effort.
		5.1 We recommend that Investment Accounting Unit document its objectives and conceptual framework, and more fully document its processes and procedures for transferring, recording, reconciling and reporting for all CalPERS investment activity.	IN PROGRESS. Fiscal Services will undertake the task of improving the process documentation currently in place to include high-level objectives and conceptual guidelines after a new Section Manager is hired.

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Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05)	Investment Office	1.1 We recommend improved internal controls over the program change process to reduce the chance of inadvertent deletion or erroneous changes of software code. Additionally, we suggest that someone independent of the Investment Office, such as the Legal Office or Compliance Office, maintain the restricted list securities in the Charles River Compliance System.	CONCUR. The two actions recommended, software change controls and non-investment office maintenance of the restricted list, will mitigate the potential for non-compliant trades. In addition to these steps, the Investment Office will require all trade lists be routed through the Charles River order management system and subjected to the compliance test module of the system. The Investment Office has created a proposed Charles River framework where the CalPERS Office of Enterprise Compliance function will maintain both restricted and tobacco listings at the issuer level.
		1.2 We recommend the Investment Office establish a standard, documented method of reviewing and identifying American Depository Receipts (ADR) in this and related portfolios, to enhance its ability to comply with policy.	CONCUR. The Investment Office will create a structure and documented method to allow the identification and consistent categorization of ADR's in the Charles River system. The source of information for this listing will be the Bank of New York ADR website. To provide more timely identification of depository shares obtained from corporate action activity, each portfolio will be screened through the Charles River compliance test module on at least a monthly basis.

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Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05) (continued)	Investment Office	1.3 We suggest that the Carolina Group from the Investor Responsibility Research Center tobacco list be added to the prohibited tobacco list in Charles River per policy, and that this list be periodically reviewed and updated to ensure that it is consistent with the list so that no inadvertent trading in prohibited tobacco stocks can occur. The review to assure accuracy of prohibited tobacco stocks should be performed by the Compliance Office; however, in the interim, this may be performed by the Assistance Executive Officer of Investment Operations.	CONCUR. The identified omission from the tobacco listing (Carolina Group) has been added to the Charles River system listing. The maintenance and updating of the tobacco list will move to the CalPERS compliance function under the Investment Office proposal shown in Attachment 1 of the audit report.
		2.1 We recommend the current portfolio monitoring processes be documented in a formal portfolio monitoring plan for this portfolio and for each of the other internally managed portfolios.	CONCUR. A more structured, documented process has been proposed and will be implemented as in Attachment 2 of the audit report. This process will be used with all internally managed portfolios.
		2.2 We recommend providing physical security, such as a locked cabinet, for the workstations with the program in the office space. Biometric security for log in and encryption should also be considered. We also recommend that the systems be protected from data loss or destruction, and that formal backup and recovery plans be developed and implemented that include applications, data and secure offsite redundancy.	CONCUR. CalPERS' Investment Office is working with the Information Technology Services Branch to upgrade the systems platform used to manage the strategy. As part of this exercise, the biometric capability of the Bloomberg keyboard will be examined for usability to provide additional security. Other aspects being examined are locating some of the systems capability within the controlled trade room environment and providing for uninterruptible power supply.

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Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05) (continued)	Investment Office	2.3 We recommend that the Investment Office implement appropriate standard change control practices over the computer software, including version control, testing and documentation.	CONCUR. The Information Technology Services Branch will determine the ability of the organization's current change control utility to provide this functionality to the programming used for the Domestic Enhanced Index portfolio.
System Backup and Archival Process Review (5/23/05)	Technology Services and Support	1.1 Data Center management should instruct staff to maintain adequate documentation showing proper authorization of change requests.	CONCUR. Data Center has practices, processes and procedures that ensure adequate documentation and/or authorization are in place. Data Center will request from the Office of Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures.
		1.2 Data Center should prohibit the use of shared IDs, or obtain the approval by the Data Owner and the Information Security Office, as required by CalPERS' Information Security Practice.	CONCUR. Data Center has practices, processes and procedures that prohibit shared IDs, unless access has been authorized by users, the Information Security Office, and authorized designee/custodians. Data Center will request from the Office of Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures.

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System Backup and Archival Process Review (5/23/05) (continued)	Technology Services and Support	1.3 Data Center management should periodically review error logs to ensure that backup problems are timely resolved, missed or failed jobs are rerun successfully, and that an adequate audit trail is maintained.	CONCUR. Data Center has processes and procedures that guide staff to properly and timely resolve and rerun missed and failed backup jobs. Data Center management concurs that improvement and additional audit procedures should be in place to eliminate incidents such as those four findings identified by the Office of Audit Services in this audit.
		1.4 Data Center should ensure that all systems required to be backed up are actually backed up.	CONCUR. Data Center will improve and/or place additional processes and procedures to ensure all telecommunication systems with backup requirements are properly backed up.
		1.5 Data Center management should assign someone other than the person performing the backup activities to verify the completeness of the backups, fully account for the media used to store CalPERS' critical system information, and maintain a log for audit trail purposes.	CONCUR. Data Center has process and procedures that guide staff to properly perform the "backup" of the Unix operation systems. Data Center management concurs that improvement and additional audit procedures should be in place to eliminate incidents such as those identified by the Office of Audit Services in this audit.
		2.1 Data Center management should remind staff to label the ID number on the exterior of all platters currently in use.	CONCUR. Data Center management will implement additional processes and procedures to ensure that platters are properly labeled.

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System Backup and Archival Process Review (5/23/05) (continued)	Technology Services and Support	2.2 Data Center management should require staff to perform periodic inventories of media against the inventory lists and investigate the discrepancies. Missing media contents should be identified and reported to the Information Security Office when involving confidential information.	CONCUR. Data Center management will implement additional processes and procedures needed in auditing the inventory and in reporting missing media.
		2.3 Platters containing imaged member files should have been transported offsite for storage but were not. Data Center management should remind staff that backup data for offsite storage should be transported offsite timely to ensure data availability for recovery in case of a disaster occurring at the headquarters.	CONCUR. The responsible unit relating to this process has moved out of the Data Center Section and into the Application Infrastructure Support Section. The Application Infrastructure Support Section concurs with the recommendation and will implement additional processes and procedures.
		3.1 Data Center management should review the results of annual offsite inspection and ensure that staff takes appropriate steps to resolve discrepancies.	CONCUR. Data Center management will review the results of annual offsite inspection and ensure that staff takes the appropriate steps to resolve discrepancies.
		3.2 Data Center should revise the statement of work to include security requirements for media during transportation, such as bonded couriers and tamper-resistant packaging.	CONCUR. Data Center will revise the statement of work to include security requirements for media during transportation, such as bonded couriers and tamper-resistant packaging.
	Operations Support Services	3.3 Operations Support Services should work with the building manager to ensure that authorization is properly verified prior to granting access and that access is deleted timely.	CONCUR. Operations Support Services management will work with the building manager and the Information Technology Services Branch to refine the procedures to ensure that authorization to the computer room is properly controlled and maintained.

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System Backup and Archival Process Review (5/23/05) (continued)	Technology Services and Support	3.4 Data Center should continuously monitor physical access to computer rooms to ensure that access is restricted only to staff or contractors with a demonstrated need.	CONCUR. Data Center will work with Operations Support Services, building management, and/or other Information Technology Services Branch units to ensure timely revocation of computer room access of those individuals whose access is no longer needed.
		3.5 Data Center management should remind staff of the prohibition of leaving trash throughout the computer room.	CONCUR. With the R Street Data Center Relocation Project, the Data Center will have better opportunities to ensure that combustible materials are stored at a safer distance from critical data storage media.
		4.1 Data Center management should review the results of the restoration test performed on archived media annually to ensure that the integrity and availability of backup data are maintained.	CONCUR. Data Center will develop processes and procedures to audit restoration for ensuring integrity and availability of backup data.
		5.1 Data Center should restrict the access to electronic media at all times.	CONCUR. Data Center will request from the Office of Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures.
		5.2 Data Center management should ensure access to the storage bin keys is restricted to authorized staff.	CONCUR. Data Center will explore alternatives and implement appropriate mechanisms or procedures to ensure access to storage bin keys is restricted and/or tracked.

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System Backup and Archival Process Review (5/23/05) (continued)	Technology Services and Support	5.3 Data Center management should eliminate the 30 day grace period for returning the CalPERS electronic media containing backup data from the offsite facility. All electronic media should be strictly controlled to ensure protection over confidential or sensitive information. 5.4 Data Center should revise its procedures to specify proper disposal of all types of electronic media, ensuring that information is completely removed or that the media is destroyed in such a way that the information is no longer retrievable.	CONCUR. Data Center will work with our contractor and address the 30-day grace period for returning CalPERS electronic media containing backup data. We will explore, with our contractor, opportunities in eliminating the 30 day grace period. CONCUR. Data Center management will revise its procedures to specify proper disposal of all types of electronic media, ensuring that information is completely removed or that the media is destroyed in such a way that the information is no longer retrievable.
Review of Additional Retirement Service Credit (4/21/05)	Member Services	1.1 Member Services should remind its staff to be conscientious about the importance of accurate data entry, and in order to reduce the error rate, have a second staff member validate the accuracy of data inputs. They should also correct the billing errors discovered in this audit.	CONCUR. Member Services will emphasize this in training, procedures, quality assurance and periodic reviews of accounts.
Review of Internal Controls Over Performance Compensation (6/13/05)	Human Resources / Investment Office	1.1 Key documents, such as plan developments, plan changes, status reports, and year-end worksheets, did not include original signatures or the signatures were typed only with the approving officer's name. Human Resources and the Investment Office should obtain actual signatures of those required to substantiate that a review has been completed.	CONCUR. Human Resources will implement recommendation during 2005-06 fiscal year. Investment Office will supply all required original signatures to Human Resources.

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Review of Internal Controls Over Performance Compensation (6/13/05) (continued)	Human Resources	2.1 The worksheets sent to the consultant contain personal identifying information, such as the name of the individual and salary amount. Human Resources should send the consultant only the minimum amount of information needed to complete performance calculations.	CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year.
		2.2 To strengthen independence and transparency in the calculation process, the names of the individuals should not be included on the worksheets sent to the consultant. Human Resources should de-identify the information provided to the consultant, such as by assigning a unique identifier code or number.	CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year.
	Human Resources and Investment Office	2.3 Human Resources should work with staff independent of investment management staff eligible to receive the performance awards to answer questions from the consultant.	CONCUR. Human Resources will work directly with the Assistant Executive Officer (AEO), Investment Operations, to resolve any questions from the consultant. The AEO is not a potential recipient of award under this compensation program.

The Investment Office's Assistant Executive Officer will receive and respond to questions from the consultant. |

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Review of Internal Controls Over Performance Compensation (6/13/05) (continued)	Investment Office	2.4 Investment Office should prepare quantitative measures that are more specific to identify specific fund codes/subcodes, weighting factors for multiple components, time measurements when data history is not available, and consistency for incentive schedules.	CONCUR. Investment Office will collaborate with Human Resources to prepare a proposal to reformat the plans that will display the proper elements.
	Human Resources	2.5 Human Resources should consider revising the format of the plans to ensure required elements are identified for an independent party to calculate performance measurements. Also, quantitative measures should be more specific.	CONCUR. Human Resources will explore the feasibility of revising the plan format to display required information. This effort will be undertaken during the 2005-06 fiscal year and will involve collaboration with the investment consultant and Investment Office staff to determine required elements and how they can be included in the performance plan format.
	Human Resources	2.6 Human Resources should request the consultant to provide the results of their performance calculations in a portable document format (PDF) file or in writing approved by the consultant.	CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year.
Unclaimed Benefits (6/23/05)	Benefit Services	1. Benefit Services should require periodic secondary reviews by another staff member to verify the validity and appropriateness of the release of unclaimed benefits. In addition, Benefit Services should re-assess the threshold amount and the manner that should be used to determine if an independent review is necessary before releasing the benefit payment.	CONCUR. Benefit Services will start conducting secondary reviews prior to the release of unclaimed benefits in all cases, regardless of the dollar amount.

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Unclaimed Benefits (6/23/05) (continued)	Benefit Services	2. Benefit Services should provide specific direction to staff for documenting search and locate efforts to ensure consistency in its oversight responsibilities.	CONCUR. Benefit Services staff will document their search and location efforts in the system for future retrieval via either the "Summary of Events" form, or Customer Touch Point notes in SmartDesk.
	Benefit Services/Fiscal Services	3. Fiscal Services should work with Benefit Services to research, resolve, and document the justification for the unresolved transfers out of the unclaimed benefit reserve account and maintain sufficient documentation for all future transfers.	CONCUR. Benefit Services will work with Fiscal Services to investigate the 23 remaining items where justification for the transfers could not be located during the audit. Benefit Services will maintain sufficient documentation on all current transfers from the unclaimed accounts. Fiscal Services will work with Benefit Services to research, resolve, and document the justification for the remaining unresolved transfers. Fiscal Services will maintain documentation for all future transfers out of the unclaimed reserve account.
Review of Consultant Contracts for the Alternative Investment Management Program (6/30/05)	Investment Office	1.1 The Investment Office should maintain documentation to support efforts to comply with Operations Support Services' contract requirements for the administration of the Spring-Fed Pool and to ensure compliance and consistency when conducting the request for proposal process. The documentation should include the evaluations and scoring of request for proposals to allow for appropriate management oversight and review, as well as enabling succession of institutional knowledge.	CONCUR. The Investment Office's AIM Unit will coordinate with the Administrative Services Unit to document the evaluations and scoring of proposals received in response to the Request for Proposals.

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Review of Consultant Contracts for the Alternative Investment Management Program (6/30/05) (continued)	Investment Office	1.2 The Investment Office should consider including an independent observer or reviewer from outside the AIM Unit to enhance objectivity and ensure adherence to the process for scoring and evaluating the proposals submitted for the Spring-Fed Pool.	CONCUR. The Spring-Fed Pool evaluation team will include a member of the Administrative Services Unit.
		1.3 The Investment Office should update its procedures for the maintenance of the Spring-Fed Pool to reflect current practices and to include the emerging role of the Administrative Services Unit.	CONCUR. The Investment Office will update its procedures manual to include the role of the Administrative Services Unit in the Request for Proposals and contract process.
		1.4 The Investment Office did not always maintain consistent language when awarding and identifying service contracts.	CONCUR. The Investment Office will use the same language as in the request for proposal when awarding the contracts.
	Operations Support Services	2.1 Spring-Fed Pool procedures did not include a stated period of time after which, if a pool member is not selected to perform services, they may be removed from the pool, as required by the board resolution.	CONCUR. Operations Support Services revised its Spring-Fed Pool procedures to include the stated period of time, as required.
	Investment Office	2.2 The Investment Office should ensure that all Letters of Engagement contain a date, signatory and identification of personnel responsible for the engagement.	CONCUR. The Investment Office will include a date, signatory and identification of personnel responsible in the Letter of Engagement. It will comply with processes established by Operations Support Services, who has responsibility for enterprise contracting practices. Investment Office staff have been informed of the above requirements.

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Review of Consultant Contracts for the Alternative Investment Management Program (6/30/05) (continued)	Investment Office	2.3 The Investment Office should ensure that Letters of Engagement contain provisions and fee schedules based on payments for actual services rendered. If progress payments are to be made, the Letters of Engagement should contain specific deliverables prior to payments. Invoices should be inspected for adherence to the deliverables contained in the Letters of Engagement. In no circumstances should payments be made in advance of services rendered.	CONCUR. Each contract states that payments are made after services are performed per standard language. Contracts supersede all other agreements (i.e. Request for Proposal and Letter of Engagement). Thus the contract takes precedence. Progress payments will be made if deliverables identified in the engagement letter have been received. A reminder was sent to Investment Office staff.
	Operations Support Services	2.4 CalPERS should develop its own standard Letter of Engagement format, or at minimum a checklist of items to be included in all Letters of Engagement, so that CalPERS can monitor the performance of the contractor and judge whether or not the work performed justifies payment of invoices received. These should be added to the CalPERS External Resource Spring-Fed Pool Procedures.	CONCUR. Operations Support Services will work to develop a checklist that would include key contractual elements for Program staff to use as a guide in developing/issuing Letters of Engagement.
		2.5 Operations Support Services and the Investment Office should ensure the appropriate signature level is obtained for all master contracts in the Spring-Fed Pool, since any contract in the Spring-Fed Pool has a potential multi-million dollar value.	CONCUR. Operations Support Services will work with Program staff to obtain an estimated value for the pool contracts to determine the appropriate signature level. In those instances where an estimated value is not available, Operations Support Services will route the contracts to the Executive Office for signature.